

**METROPOLITAN WATER DISTRICT OF
SALT LAKE & SANDY**

FINANCIAL STATEMENTS

June 30, 2006 and 2005

WISAN, SMITH, RACKER & PRESCOTT_{LLP}
CERTIFIED PUBLIC ACCOUNTANTS

**METROPOLITAN WATER DISTRICT OF
SALT LAKE & SANDY**

FINANCIAL STATEMENTS

June 30, 2006 and 2005

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WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees
Metropolitan Water District of Salt Lake & Sandy**

We have audited the accompanying basic financial statements of the Metropolitan Water District of Salt Lake & Sandy (the "District") as of June 30, 2006 and 2005, and for the years then ended, listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Provo River Water Users Association (the "Association"), the District's investment in which is accounted for by use of the equity method. The District's equity of \$18,713,778 and \$18,580,136 in the Association's net assets at June 30, 2006 and 2005, respectively, is included in the accompanying financial statements. The financial statements of the Association as of October 31, 2005 and 2004 and for the years then ended were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Association, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, such basic financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Water District of Salt Lake & Sandy as of June 30, 2006 and 2005 and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
November 9, 2006

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

As management of the Metropolitan Water District of Salt Lake & Sandy (the "District") we present to the reader of our financial statements this discussion and analysis of the District's financial performance for the fiscal years ended June 30, 2006 and 2005.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Governmental Accounting Standards Board ("GASB"). The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting policies.

Net Assets

Assets	2006	2005	2004
Current and other assets	\$ 50,541,469	\$ 47,610,083	\$ 49,276,439
Restricted assets	26,464,096	111,880,314	89,999,834
Capital assets	298,118,747	210,075,532	130,758,439
Total assets	<u>\$ 375,124,312</u>	<u>\$ 369,565,929</u>	<u>\$ 270,034,712</u>
Liabilities			
Current liabilities	\$ 21,589,623	\$ 23,701,912	\$ 11,193,752
Long-term obligations, less current maturities	231,275,946	235,364,469	153,906,171
Total liabilities	<u>\$ 252,865,569</u>	<u>\$ 259,066,381</u>	<u>\$ 165,099,923</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 72,673,747	\$ 69,239,376	\$ 71,672,283
Restricted for debt service	7,184,895	5,870,380	3,114,164
Unrestricted	42,400,101	35,389,792	30,148,342
Total net assets	<u>\$ 122,258,743</u>	<u>\$ 110,499,548</u>	<u>\$ 104,934,789</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Financial Analysis

The decrease in restricted cash of approximately \$85.4 million (76%) is due to the commencement and continuation of various master plan projects. The master plan should conclude in the summer of 2007.

Water sales revenue increased almost 41% from FY 2005 to 2006. The total revenue from Salt Lake increased from \$5.6 million in 2005 to \$7.7 million in 2006. Sandy City increased from \$1.9 million to \$2.9 million. It should be noted for FY 2007, treated water rates increased from \$163 acre/ft. to \$175 acre/ft. As water conditions have been more favorable over the past few years, a net result is an increase in water deliveries.

Special assessment revenue increased almost 80% due to the addition of the Ontario Drain Tunnel water rights assessment to Sandy City (approx. \$863,000 annually) and the increase in the assessment to Sandy (\$4.2 million annually) and Salt Lake City (\$7.0 million annually), for the master plan project.

In 2005 we saw \$950,000 in capital contributions. This was made up of a grant from the state for bond reimbursement of credit enhancement costs which include bond insurance, rating agency fees, and related charges. During 2006 there were no grants received of this nature.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Financial Analysis (continued)

Property taxes receivable increased by 62% for FY 2006. For 2006, property taxes, the district increased the tax rate from .000219 for Sandy and .000259 for Salt Lake to .00035 for both cities. The property tax receivable also includes delinquent taxes which have not been collected by the cities.

Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 10,609,279	\$ 7,519,169	\$ 9,974,971
Operating expenses	<u>(14,716,794)</u>	<u>(13,312,969)</u>	<u>(12,893,811)</u>
Operating loss	(4,107,515)	(5,793,800)	(2,918,840)
Non-operating revenues, net	20,082,205	14,447,146	5,154,003
Non-operating expenses - interest	<u>(4,215,495)</u>	<u>(4,038,587)</u>	<u>(2,673,642)</u>
Income (loss) before capital contributions	11,759,195	4,614,759	(438,479)
Capital contributions	<u>-</u>	<u>950,000</u>	<u>1,020,000</u>
Change in net assets	11,759,195	5,564,759	581,521
Total net assets:			
Beginning of year	<u>110,499,548</u>	<u>104,934,789</u>	<u>104,353,268</u>
End of year	<u>\$ 122,258,743</u>	<u>\$ 110,499,548</u>	<u>\$ 104,934,789</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Summary of Revenues

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating:			
Water sales	\$ 10,565,083	\$ 7,507,241	\$ 9,938,373
Water treatment	33,591	4,440	23,100
Aqueduct capacity rentals	<u>10,605</u>	<u>7,488</u>	<u>13,498</u>
Total operating	10,609,279	7,519,169	9,974,971
Non-operating:			
Property tax revenues	4,422,637	4,769,947	4,670,473
Special assessment revenue	11,672,614	6,489,937	-
Interest income	3,781,884	2,899,979	720,503
Laboratory fees	12,391	12,732	12,668
Equity in income of Provo River Water Users Association	133,642	152,270	(41,885)
Gain (loss) on sale of assets	545	89,666	(360,826)
Other	<u>58,492</u>	<u>32,615</u>	<u>153,070</u>
Total non-operating	20,082,205	14,447,146	5,154,003
Capital contributions	<u>-</u>	<u>950,000</u>	<u>1,020,000</u>
Total revenues	<u>\$ 30,691,484</u>	<u>\$ 22,916,315</u>	<u>\$ 16,148,974</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY

Management's Discussion and Analysis (Unaudited)

Summary of Expenses

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating:			
Direct	\$ 8,332,956	\$ 6,300,947	\$ 4,928,204
General and administrative	2,611,625	2,212,218	2,973,153
Depreciation and amortization	<u>3,772,213</u>	<u>4,799,804</u>	<u>4,992,454</u>
Total operating expenses	14,716,794	13,312,969	12,893,811
Non-operating expense - interest	<u>4,215,495</u>	<u>4,038,587</u>	<u>2,673,642</u>
Total	<u>\$ 18,932,289</u>	<u>\$ 17,351,556</u>	<u>\$ 15,567,453</u>

Capital Asset Activity

During 2006, the District expended approximately \$83 million on master plan projects. Some of the more significant expenditures were \$30.5 million for the Point of the Mountain Water Treatment Plant, \$8.7 million for Point of the Mountain finish water pump station, \$3.7 million for Point of the Mountain finished water reservoir, \$24.1 million for Point of the Mountain Aqueduct, \$2.4 million for Point of the Mountain raw water storage, and \$2.0 million for Little Cottonwood Water Treatment Plant expansion project.

Debt Administration

It should be noted on August 15, 2006; the District requested and received the final bond issuance for the master plan projects. The total funds received were \$34,600,000 with \$600,000 being used for fees associated with the bond issuance. The District received an AA rating during the bond issuance. This rating is proof of the District's strong financial integrity.

Requests for information

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the Controller, 3430 East Danish Road, Sandy, Utah 84093.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Unrestricted cash and cash equivalents	\$ 15,977,537	\$ 14,776,979
Restricted cash and cash equivalents	26,464,096	111,880,314
Receivables:		
Accounts receivable, net	2,502,711	3,004,150
Notes receivable - Sandy City	570,356	475,282
Property taxes receivable	7,010,661	4,321,704
	<u>10,083,728</u>	<u>7,801,136</u>
Prepaid expenses	546,681	374,843
Supplies	149,148	84,728
TOTAL CURRENT ASSETS	<u>53,221,190</u>	<u>134,918,000</u>
CAPITAL ASSETS, NET	298,118,747	210,075,532
OTHER ASSETS		
Notes receivable - Sandy City	1,337,649	2,202,412
Provo River Water Users Association	18,713,778	18,580,136
Other	11,090	11,090
TOTAL OTHER ASSETS	<u>20,062,517</u>	<u>20,793,638</u>
BOND ISSUE COSTS, NET	<u>3,721,858</u>	<u>3,778,759</u>
TOTAL ASSETS	<u>\$ 375,124,312</u>	<u>\$ 369,565,929</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable including amounts retained on construction contracts of \$5,626,158 and \$2,471,802, respectively	\$ 7,616,118	\$ 13,609,920
Accrued expenses	3,196,999	2,883,747
Current portion of deferred income	7,010,661	4,172,400
Current portion of long-term liabilities:		
Provo River Water Users Association	175,845	175,845
Revenue bonds payable	3,590,000	2,860,000
TOTAL CURRENT LIABILITIES	<u>21,589,623</u>	<u>23,701,912</u>
NON-CURRENT LIABILITIES		
Unamortized bond premiums	5,692,784	5,972,698
Provo River Water Users Association	3,728,162	3,946,771
Revenue bonds payable	221,855,000	225,445,000
TOTAL NON-CURRENT LIABILITIES	<u>231,275,946</u>	<u>235,364,469</u>
NET ASSETS		
Invested in capital assets, net of related debt	72,673,747	69,239,376
Restricted for debt service	7,184,895	5,870,380
Unrestricted	42,400,101	35,389,792
TOTAL NET ASSETS	<u>122,258,743</u>	<u>110,499,548</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 375,124,312</u>	<u>\$ 369,565,929</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Water sales	\$ 10,565,083	\$ 7,507,241
Water treatment	33,591	4,440
Aqueduct capacity rentals	10,605	7,488
TOTAL OPERATING REVENUES	<u>10,609,279</u>	<u>7,519,169</u>
OPERATING EXPENSES		
Cost of sales and services	8,332,956	6,300,947
General and administrative	2,611,625	2,212,218
Depreciation and amortization	3,772,213	4,799,804
TOTAL OPERATING EXPENSES	<u>14,716,794</u>	<u>13,312,969</u>
OPERATING LOSS	<u>(4,107,515)</u>	<u>(5,793,800)</u>
NON-OPERATING REVENUES (EXPENSES)		
Property tax revenues	4,422,637	4,769,947
Special assessment revenue	11,672,614	6,489,937
Interest income	3,781,884	2,899,979
Interest expense	(4,215,495)	(4,038,587)
Laboratory fees	12,391	12,732
Gain on Provo River Water Users Association	133,642	152,270
Gain on sale of assets	545	89,666
Other income	58,492	32,615
TOTAL NON-OPERATING REVENUES - NET	<u>15,866,710</u>	<u>10,408,559</u>
Income before capital contributions	11,759,195	4,614,759
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>950,000</u>
CHANGE IN NET ASSETS	11,759,195	5,564,759
Total net assets - beginning of year (As Restated)	<u>110,499,548</u>	<u>104,934,789</u>
Total net assets - end of year	<u>\$ 122,258,743</u>	<u>\$ 110,499,548</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 10,804,784	\$ 8,099,684
Cash received from water treatment	33,591	4,440
Cash received from aqueduct rentals	10,605	7,488
Payments to vendors	(11,086,911)	(1,631,761)
Payment to employees	(2,459,969)	(2,520,551)
Employee benefits paid	(1,883,556)	(1,764,199)
Administrative expenses to PRWUA	(1,169,215)	(1,071,523)
Net cash flows from (used by) operating activities	(5,750,671)	1,123,578
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes collected	4,605,905	4,695,938
Other revenue collected	192,134	62,130
Laboratory fees collected	12,391	12,732
Net cash flows from noncapital financing activities	4,810,430	4,770,800
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Special assessment revenue	11,681,779	6,489,937
Principal paid on revenue bonds	(2,860,000)	(1,235,000)
Payments for acquisition and construction of capital assets	(100,476,621)	(76,287,345)
Interest paid on revenue bonds and aqueduct contract	(4,215,495)	(4,038,587)
Proceeds from the issuance of revenue bonds, net	-	83,311,487
Proceeds on sale of property and equipment	-	201,913
Contributions received from other governments for capital projects	8,400,000	-
Cash received from grants for capital assets	-	950,000
Net cash flows from (used by) capital and related financing activities	(87,470,337)	9,392,405
Net cash flows from (used by) financing activities	(82,659,907)	14,163,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received on notes receivable	546,676	-
Interest received on investments	3,648,242	2,838,478
Net cash flows from investing activities	4,194,918	2,838,478
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(84,215,660)	18,125,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	126,657,293	108,532,032
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 42,441,633	\$ 126,657,293
CASH AND CASH EQUIVALENTS RECORDED IN THE ACCOMPANYING BALANCE SHEETS:		
Unrestricted	\$ 15,977,537	\$ 14,776,979
Restricted	26,464,096	111,880,314
	\$ 42,441,633	\$ 126,657,293

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (4,107,515)	\$ (5,793,800)
Adjustments to reconcile operating loss to net cash flows from (used by) operating activities:		
Depreciation and amortization	3,772,213	4,799,804
(Increase) decrease in assets:		
Accounts receivable	501,439	469,688
Inventory	(64,420)	5,860
Prepaid expenses	(171,838)	338,523
Increase (decrease) in liabilities:		
Accounts payable	(5,993,802)	(51,889)
Accrued expenses	<u>313,252</u>	<u>1,355,392</u>
Net cash flows from (used by) operating activities	<u>\$ (5,750,671)</u>	<u>\$ 1,123,578</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Gain (loss) on Provo River Water Users Association	<u>\$ 133,642</u>	<u>\$ 61,501</u>
(Gain) loss on sale of assets	<u>\$ (545)</u>	<u>\$ 89,666</u>
Note receivable Sandy City	<u>\$ -</u>	<u>\$ (2,677,694)</u>
Gain on bond premium and discount amortization	<u>\$ (223,013)</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Metropolitan Water District of Salt Lake & Sandy (the "District") was organized under the Metropolitan Water District Act. The District is a separate legal entity, with a seven member board, five of which are appointed by Salt Lake City and two of which are appointed by Sandy City. Board members serve for a specified term and cannot be removed without cause. However, as the member cities are unable to impose their will and are not financially accountable for the District, the District is not reported as a component unit of the member cities. Substantially all of the water resources developed by the District are sold to Salt Lake City and Sandy City.

Basis of Presentation

The District is a governmental unit which is accounted for as a business type activity. The District follows accounting principles generally accepted in the United States of America applicable to a governmental entity, including pronouncements of the Governmental Accounting Standards Board ("GASB"). The District has elected not to follow all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins ("ARB"), issued after November 30, 1989, in accordance with GASB Statement No. 20. The records of the District are maintained on the accrual basis of accounting, with a measurement focus on net income determination and capital maintenance. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The District follows the provisions of GASB Statement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis — For State and Local Governments: Omnibus, and GASB Statement No. 38, Certain Financial Statement Disclosures. These statements require governmental entities to provide additional accrual-basis statements and schedules to better communicate the financial status of the governmental entity.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable

Accounts receivable are generally comprised of receivables on water sales, which are expected to be paid by cities and other water districts. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management does not expect any uncollectible amounts as all payments are from governmental entities.

Supplies

Inventory, consisting of chemicals for the purification of water and fuels are stated at the lower of cost (first-in, first-out method) or market value.

Capital Assets

Capital assets are recorded at cost, less accumulated depreciation. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	5-50 years
Machinery and equipment	3-20 years
Transportation equipment	3-7 years
Furniture and fixtures	3-20 years
Aqueduct and appurtenances	5-75 years

No depreciation is provided on construction in progress until the asset is placed in service.

Related Entity Note Receivable

Note receivable represents an obligation from Sandy City for the purchase of rights of way for Highland Drive (as part of Point of the Mountain Aqueduct property transactions). The note corresponding to rights of way will be repaid over five years (see Note 7).

Bond Issue Costs, Bond Discounts, and Bond Premiums

Bond issue costs, bond discounts, and bond premiums are deferred and amortized or accreted over the life of the related bonds. Amortization or accretion is computed on the straight-line method, which approximates the effective interest method. Bond discounts and bond premiums are presented as a reduction or addition to the face amount of bonds payable, whereas, issuance costs are recorded as an asset.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capitalization of Interest Costs

The District capitalizes interest on borrowings which are used to finance construction. Capitalization of interest is net of interest earned on construction funds borrowed. Interest capitalization ceases when the construction project is substantially completed. Net interest capitalized was \$5,577,442 and \$3,404,447 and total interest cost was \$10,229,891 and \$7,443,034 for the years ended June 30, 2006 and 2005, respectively.

Deferred Charges

Costs of preliminary surveys and other investigations which are related to proposed construction are deferred and included in construction in progress until the projects are placed in service, at which time they are depreciated over their useful lives. The cost of discontinued projects is charged to expense in the year the decision is made to discontinue the project.

Deferred Income

Taxes assessed at the beginning of each calendar year are not received until the end of the calendar year, after the end of the fiscal year. The assessed revenue for the year is recorded as deferred revenue in accordance with GASB Statement No. 33.

Capital Contributions

In accordance with GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, capital contributions are recorded as revenues.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Revenue

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions such as water sales revenue.
- *Non-operating revenues* – Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34. Examples of non-operating revenues would be property tax revenues, interest income, gain or loss on sale of assets, and equity earnings in Provo River Water Users Association.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Property Tax Revenue

Property tax revenue is collected and remitted by the Salt Lake County Treasurer as an agent for the District.

Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a two percent penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year, the taxes remain delinquent, the County advertises and sells the property at a tax sale.

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, defines a nonexchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the District has the legal right to collect the taxes, and in accordance with the provisions of the statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1 which are not collected or used until the following fiscal year.

Water Sales Revenue

Revenue from water sales is recorded based on monthly usage at the stated wholesale water rate. Water usage is measured by flow meters located in the aqueducts.

Net Assets

The District's net assets are classified as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

- Restricted for debt service – This component of net assets consists of that portion of net assets that is restricted by debt covenants for debt service.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrestricted:		
Cash and cash equivalents:		
Cash -- Net of outstanding checks	\$ 2,295,034	\$ 1,659,978
Public Treasurers Investment Fund	<u>13,682,503</u>	<u>13,117,001</u>
Total unrestricted cash and cash equivalents	<u>\$ 15,977,537</u>	<u>\$ 14,776,979</u>
Restricted:		
Cash and cash equivalents:		
Public Treasurers Investment Fund	\$ 14,395,680	\$ 50,961,162
Collateralized money market account	11,418,416	60,269,152
Repurchase agreements	<u>650,000</u>	<u>650,000</u>
Total restricted cash and cash equivalents	<u>\$ 26,464,096</u>	<u>\$ 111,880,314</u>

Deposits – Deposits and investments for local governments are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, “the Act”) and by rules of the Utah Money Management Council (“the Council”). Following are discussions of the District’s exposure to various risks related to its cash management activities.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District does not have a deposit policy for custodial credit risk. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006 and 2005, the District's deposits had carrying values of \$1,645,034 and \$1,009,978, respectively, and bank balances of \$3,699,829 and \$2,429,266, respectively. Because these funds are held in a daily sweep account, they are not covered by federal depository insurance. Repurchase agreements in the amount of \$650,000 are supported by a safekeeping receipt issued by a qualified depository, but the securities are held by the investment's counterparty, not in the name of the District.

Credit Risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees of the PTIF are allocated based upon the participants' average daily balances. For the years ended June 30, 2006 and 2005, the District had funds of \$28,078,183 and \$63,428,163, respectively, with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The District's investment policy specifies that all investments will be sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 3 - RESTRICTED CASH AND CASH EQUIVALENTS

Certain cash and cash equivalents are restricted by provisions of the bond resolutions adopted by the District (Note 6) as follows:

Amounts Restricted for Costs of Construction Projects – The 2002 Bond Resolution requires that a reserve be established for bond proceeds restricted to the related construction projects. Any excess funds shall be applied to the payment of principal and interest on the bonds when due.

Amounts Restricted for Revenue Bond Debt Service – On April 29, 2002, the District adopted a new bond resolution. The 2002 Water Revenue Bond Resolution (“2002 Bond Resolution”) requires that a debt service account (“Bond Fund”) be maintained that is equal to the principal and interest installment due within the fiscal year on the outstanding revenue bonds. The amounts at June 30, 2006 and 2005 were \$7,184,895 and \$5,870,380, respectively.

Amounts Restricted for Renewal and Replacement – The 2002 Bond Resolution requires that an initial renewal and replacement reserve of \$650,000 be established but the reserve may be increased or decreased from time to time by a supplemental resolution. In the event a deficiency arises in the amounts restricted for the Bond Fund, monies in the renewal and replacement reserve shall be transferred to satisfy the deficiency.

Restricted assets, including accrued interest receivable, consisted of the following (net assets have been reserved in the same amounts):

	<u>2006</u>	<u>2005</u>
Funds restricted by the 2002 Bond Resolution (Note 6):		
Cost of construction projects (unspent bond proceeds)	\$ 18,629,201	\$ 105,359,934
Bond Fund	7,184,895	5,870,380
Renewal and Replacement Fund	<u>650,000</u>	<u>650,000</u>
Total restricted assets	<u>\$ 26,464,096</u>	<u>\$ 111,880,314</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 4 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2006 are as follows:

	<u>July 1, 2005</u>	<u>Additions / Transfers In</u>	<u>Disposals / Transfers Out</u>	<u>June 30, 2006</u>
Capital assets not depreciated:				
Water rights	\$ 13,765,073	\$ -	\$ -	\$ 13,765,073
Land and right of way	19,752,649	-	-	19,752,649
Construction in progress	<u>96,604,500</u>	<u>100,278,147</u>	<u>(8,400,000)</u>	<u>188,482,647</u>
Total capital assets not depreciated	130,122,222	100,278,147	(8,400,000)	222,000,369
Capital assets being depreciated:				
Buildings and improvements	35,960,943	-	(24,679)	35,936,264
Machinery and equipment	19,117,075	203,255	-	19,320,330
Transportation equipment	802,822	-	-	802,822
Furniture and fixtures	237,231	47,735	-	284,966
Aqueduct and appurtenances	<u>63,717,825</u>	<u>21,010</u>	<u>(48,300)</u>	<u>63,690,535</u>
Total capital assets being depreciated	119,835,896	272,000	(72,979)	120,034,917
Less accumulated depreciation for:				
Buildings and improvements	(11,401,940)	(1,434,481)	-	(12,836,421)
Machinery and equipment	(14,264,190)	(1,150,636)	-	(15,414,826)
Transportation equipment	(432,498)	(17,125)	-	(449,623)
Furniture and fixtures	(164,284)	(80,812)	-	(245,096)
Aqueduct and appurtenances	<u>(13,619,674)</u>	<u>(1,350,899)</u>	<u>-</u>	<u>(14,970,573)</u>
Total accumulated depreciation	<u>(39,882,586)</u>	<u>(4,033,953)</u>	<u>-</u>	<u>(43,916,539)</u>
Total capital assets, net	<u>\$ 210,075,532</u>	<u>\$ 96,516,194</u>	<u>\$ (8,472,979)</u>	<u>\$ 298,118,747</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

The changes in capital assets for the year ended June 30, 2005 are as follows:

	July 1, 2004	Additions / Transfers In	Disposals / Transfers Out	June 30, 2005
Capital assets not depreciated:				
Water rights	\$ -	\$ 13,765,073	\$ -	\$ 13,765,073
Land and right of way	19,669,390	106,926	(23,667)	19,752,649
Construction in progress	31,687,608	69,761,319	(4,844,427)	96,604,500
Total capital assets not depreciated	51,356,998	83,633,318	(4,868,094)	130,122,222
Capital assets being depreciated:				
Buildings and improvements	33,435,003	2,525,940	-	35,960,943
Machinery and equipment	19,025,684	91,391	-	19,117,075
Transportation equipment	810,967	288,625	(296,770)	802,822
Furniture and fixtures	237,231	-	-	237,231
Aqueduct and appurtenances	61,453,305	2,264,520	-	63,717,825
Total capital assets being depreciated	114,962,190	5,170,476	(296,770)	119,835,896
Less accumulated depreciation for:				
Buildings and improvements	(9,530,052)	(1,871,888)	-	(11,401,940)
Machinery and equipment	(13,006,792)	(1,257,398)	-	(14,264,190)
Transportation equipment	(505,451)	(223,817)	296,770	(432,498)
Furniture and fixtures	(144,695)	(19,589)	-	(164,284)
Aqueduct and appurtenances	(12,373,759)	(1,245,915)	-	(13,619,674)
Total accumulated depreciation	(35,560,749)	(4,618,607)	296,770	(39,882,586)
Total capital assets, net	\$ 130,758,439	\$ 84,185,187	\$ (4,868,094)	\$ 210,075,532

NOTE 5 - PROVO RIVER WATER USERS ASSOCIATION

The Provo River Water Users Association (the "Association") is a water resources agency incorporated under Utah law with 100,000 shares of no-par value, assessable capital stock, of which all were outstanding during 2006 and 2005. Each share carries a pro rata right to the use of all water made available by the Association annually up to a limit of one acre foot per share of stock. The District holds 61,700 of the Association's shares. In accordance with governmental accounting standards, the controlling interest has been accounted for using the equity method.

The District agreed to pay its proportionate share, based upon stock ownership of 61.7%, of the construction cost of the Deer Creek Division of the Provo River Project. The District has an obligation to pay \$2.85 per share (\$175,845 annually) towards the cost of this project.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 5 - PROVO RIVER WATER USERS ASSOCIATION (CONTINUED)

The District's share of the Association's obligation and its equity in repayments as of June 30, 2006 are summarized as follows:

	<u>Total Association Obligation</u>	<u>District's Share</u>
Original contract	\$ 11,400,000	\$ 7,033,800
Less payments and other charges applied in payment	<u>5,072,598</u>	<u>3,129,793</u>
Balance on original contract	6,327,402	3,904,007
Less current maturities	<u>(285,000)</u>	<u>(175,845)</u>
Long-term obligation	<u><u>\$ 6,042,402</u></u>	<u><u>\$ 3,728,162</u></u>

The District's investment in the Association as of June 30, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
District's share of Deer Creek Division:		
Original contract	\$ 7,033,800	\$ 7,033,800
Excess costs	<u>7,436,248</u>	<u>7,436,248</u>
Total	14,470,048	14,470,048
District's interest in the Association's retained earnings	4,025,770	3,892,128
Costs associated with acquisition of additional stock of the Association from the distributing Company	94,058	94,058
Cost of sanitation facilities constructed at Deer Creek Reservoir	25,625	25,625
District's share in cost of lining Provo Reservoir Canal	<u>98,277</u>	<u>98,277</u>
Total	<u><u>\$ 18,713,778</u></u>	<u><u>\$ 18,580,136</u></u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 5 - PROVO RIVER WATER USERS ASSOCIATION (CONTINUED)

Summary financial information for the Association as of October 31, 2005 and 2004, the most recent audited financial statements available, and for its fiscal year then ended is presented as follows:

	<u>2005</u>	<u>2004</u>
Cash and investments	\$ 1,016,815	\$ 1,135,767
Other assets, principally water rights	<u>31,352,067</u>	<u>30,929,917</u>
Total assets	<u>\$ 32,368,882</u>	<u>\$ 32,065,684</u>
Total liabilities	\$ 8,597,623	\$ 9,103,544
Total equity	<u>23,771,259</u>	<u>22,962,140</u>
Total liabilities and equity	<u>\$ 32,368,882</u>	<u>\$ 32,065,684</u>
Total revenues	\$ 2,830,601	\$ 2,454,896
Total expenses	<u>2,375,786</u>	<u>2,430,639</u>
Net income	<u>\$ 454,815</u>	<u>\$ 24,257</u>
District's share	<u>\$ 280,621</u>	<u>\$ 14,967</u>

The District's equity in the Association's net income for the period from June 30, 2005 to October 31, 2005 was \$385,189 and for the period from June 30, 2004 to October 31, 2004 was \$50,586. The District's equity in the Association's unaudited net income (loss) for the period November 1, 2005 to June 30, 2006 was \$(53,389) and for the period November 1, 2004 to June 30, 2005 was \$114,038.

The Association's complete financial report can be obtained by contacting their offices directly, located at 285 West 1100 North, Pleasant Grove, UT 84062.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - REVENUE BONDS PAYABLE

The following is a summary of the changes in revenue bonds payable for the year ended June 30, 2006:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Current Maturities</u>
2002B Series water revenue refunding bonds, 4.00% to 5.25%, maturing in annual installments through 2024	\$ 19,325,000	\$ -	\$ (685,000)	\$ 18,640,000	\$ 710,000
A-4 Series water revenue refunding bonds, variable interest at a weekly rate (3.97% and 2.28% at June 30, 2006 and 2005, respectively), maturing in annual installments from 2024 through 2030	12,100,000	-	-	12,100,000	-
A-3 Series water revenue refunding bonds, variable interest at a weekly rate (3.97% and 2.28% at June 30, 2006 and 2005, respectively), maturing in annual installments through 2024	5,500,000	-	(200,000)	5,300,000	200,000
2003A Series water revenue bonds, 2.50% to 5.25%, maturing in annual installments through 2020	7,630,000	-	(385,000)	7,245,000	395,000
A-8 Series water revenue bonds, variable interest at a weekly rate (3.97% and 2.28% at June 30, 2006 and 2005, respectively), maturing in annual installments from 2020 through 2032	12,000,000	-	-	12,000,000	-
2004 Series water revenue bonds, 2.25% to 5% maturing in annual installments through 2024	42,700,000	-	(1,590,000)	41,110,000	1,635,000
A-9 Series program revenue bonds, variable interest at a weekly rate (3.97% and 2.28% at June 30, 2006 and 2005, respectively), maturing in annual installments from 2025 through 2035	47,300,000	-	-	47,300,000	-
2005A Series water revenue bonds, 3% to 5% maturing in annual installments through 2025	44,650,000	-	-	44,650,000	650,000
A-11 Series program revenue bonds, variable interest at a weekly rate (3.97% and 2.28% at June 30, 2006 and 2005, respectively), maturing in annual installments from 2026 through 2032	37,100,000	-	-	37,100,000	-
Total	228,305,000	-	(2,860,000)	225,445,000	\$ 3,590,000
Plus unamortized premium	5,972,698	-	(279,914)	5,692,784	
Total bonds	\$ 234,277,698	\$ -	\$ (3,139,914)	\$ 231,137,784	

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

The following is a summary of the changes in revenue bonds payable for the year ended June 30, 2005:

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Current Maturities</u>
2002B Series water revenue refunding bonds, 4.00% to 5.25%, maturing in annual installments through 2024	\$ 19,990,000	\$ -	\$ (665,000)	\$ 19,325,000	\$ 685,000
A-4 Series water revenue refunding bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments from 2024 through 2030	12,100,000	-	-	12,100,000	-
A-3 Series water revenue refunding bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments through 2024	5,700,000	-	(200,000)	5,500,000	200,000
2003A Series water revenue bonds, 2.50% to 5.25%, maturing in annual installments through 2020	8,000,000	-	(370,000)	7,630,000	385,000
A-8 Series water revenue bonds, variable interest at a weekly rate (3.09% and 4.5% at June 30, 2005 and 2004, respectively), maturing in annual installments from 2020 through 2032	12,000,000	-	-	12,000,000	-
2004 Series water revenue bonds, 2.25% to 5% maturing in annual installments through 2024	42,700,000	-	-	42,700,000	1,590,000
A-9 Series program revenue bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments from 2025 through 2035	47,300,000	-	-	47,300,000	-
2005A Series water revenue bonds, 3% to 5% maturing in annual installments through 2025	-	44,650,000	-	44,650,000	-
A-11 Series program revenue bonds, variable interest at a weekly rate (2.28% and 1.05% at June 30, 2005 and 2004, respectively), maturing in annual installments from 2026 through 2032	-	37,100,000	-	37,100,000	-
Total	147,790,000	81,750,000	(1,235,000)	228,305,000	\$ 2,860,000
Plus unamortized premium	3,223,729	2,921,382	(172,412)	5,972,698	
Total bonds	\$ 151,013,729	\$ 84,671,382	\$ (1,407,412)	\$ 234,277,698	

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

Maturities of the revenue bonds for the years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,590,000	\$ 9,772,244	\$ 13,362,244
2008	3,320,000	9,678,906	12,998,906
2009	3,425,000	9,578,743	13,003,743
2010	3,765,000	9,469,930	13,234,930
2011	4,500,000	9,317,230	13,817,230
2012-2016	29,610,000	42,955,597	72,565,597
2017-2021	40,040,000	34,790,008	74,830,008
2022-2026	49,815,000	24,066,631	73,881,631
2027-2031	60,160,000	12,270,275	72,430,275
2032-2036	27,220,000	2,099,228	29,319,228
	<u>\$ 225,445,000</u>	<u>\$ 163,998,792</u>	<u>\$ 389,443,792</u>

Variable Interest Rate – As of June 30, 2006, the variable interest rate on the Series A-4 Program Revenue Bonds, the Series A-8 Program Revenue Bonds, the Series A-9 Program Revenue Bonds, and the Series A-11 Program Revenue Bonds was set at the weekly rate as defined in the official bond statement. The interest rate determination method for the bonds can be changed by the District to a daily rate, a commercial paper rate, or a long-term interest rate (all of which are defined in the official bond statement). The effective date of any change shall be the first day of the first interest period during which the bonds of such series shall bear interest at a rate determined by the new method.

Interest Rate Contracts – Prior to June 30, 2006, Utah Water Finance Agency had entered into fixed pay swaps of interest rate contracts for the benefit of the District to manage interest rate risk on the A-4 Series Program Revenue Bonds, the A-8 Series Program Revenue Bonds, the A-9 Series Program Revenue Bonds, and the A-11 Series Program Revenue Bonds as indicated below:

- Series A-4 Bonds, \$12,100,000 notional amount, fixed pay rate 4.32%, maturing July 1, 2030.
- Series A-8 Bonds, \$12,000,000 notional amount, fixed pay rate 4.50%, maturing July 1, 2032.
- Series A-9 Bonds, \$23,100,000 notional amount, fixed pay rate 4.163%, maturing July 1, 2035.
- Series A-11 Bonds, \$37,100,000 notional amount, fixed pay rate 4.225% maturing July 1, 2032.

Under these interest rate swaps, the District agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate interest amounts to the agreed notional principal amount. The effect of these interest rate swaps is to reduce the District's exposure to rising interest rates.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

Fair Value – Because interest rates have changed since the execution of the swaps, the swaps related to the Series A-4 Bonds, Series A-8 Bonds, Series A-9 Bonds, and the Series A-11 Bonds had positive (negative) fair values of \$(165,749), \$(208,577), \$379,122, and \$427,935, respectively, as of June 30, 2006.

Credit risk – The District currently utilizes letters of credit for the Series A-4 Bonds, Series A-8 Bonds and a portion of the Series A-9 Bonds from JP Morgan Bank. The letters of credit expire in March 2007.

Basis risk – There is no basis risk associated with the swaps.

Termination risk – The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Also, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt – Using rates as of June 30, 2006, debt service requirements of the Series A-4 Bonds, Series A-8 Bonds, Series A-9 Bonds, and Series A-11 Bonds and net swap payments, assuming current interest rates remain the same, are shown in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2007	\$ -	\$ 4,463,048	\$ 1,397,748	\$ 5,860,796
2008	-	4,463,048	1,397,748	5,860,796
2009	-	4,463,048	1,397,748	5,860,796
2010	-	4,463,048	1,397,748	5,860,796
2011	-	4,463,048	1,397,748	5,860,796
2012-2016	-	21,879,640	6,988,740	28,868,380
2017-2021	1,400,000	21,879,640	6,988,740	28,868,380
2022-2026	19,720,000	21,039,999	6,988,740	28,028,739
2027-2031	60,160,000	12,270,275	6,605,790	18,876,065
2032-2034	<u>27,220,000</u>	<u>2,099,228</u>	<u>1,233,294</u>	<u>3,332,522</u>
	<u>\$ 108,500,000</u>	<u>\$ 101,484,022</u>	<u>\$ 35,794,044</u>	<u>\$ 137,278,066</u>

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 6 - REVENUE BONDS PAYABLE (CONTINUED)

The following are selected provisions of the 2002 Bond Resolution:

Optional Redemption and Redemption Prices – The series 2002B bonds maturing on or after July 1, 2013, are subject to redemption prior to maturity at the option of the District on or after July 1, 2012, in whole or in part at any time, from such maturities or parts thereof as shall be selected by the District, at a redemption price of 100% of the principal amount of the Series 2002B bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

Pledge of the 2002 Bond Resolution – The 2002 Bond Resolution provides that the bonds shall be special obligations of the District payable solely from and secured by (i) the proceeds of sale of the Bonds, (ii) the revenues, and (iii) all funds (other than the operation and maintenance fund and the rebate fund), including the investments, if any, thereof, subject to any required rebate of all or a portion of the earnings on such investments to the United States of America.

Funds Required by the 2002 Bond Resolution – The 2002 Bond Resolution requires that certain funds be established to account for the District's receipts and disbursements. Such funds are accounts within the District's records and are not separate funds or groups of self-balancing accounts. The amounts held in these funds are to be used for the purposes stipulated in the 2002 Bond Resolution.

NOTE 7 - NOTE RECEIVABLE – SANDY

The District entered into an agreement with Sandy City for a project which will be funded by the issuance of the Series A-4 program revenue bonds. The agreement provides for special assessment charges to Sandy City to help pay for the costs of the project. In addition, Sandy City agreed to make payments for a portion of the debt service on the bonds referred to above. The total notes receivable from Sandy City as of June 30, 2006 and 2005 is \$1,908,005 and \$2,677,694, respectively, including the current portions of \$570,356 and \$475,282.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 7 - NOTE RECEIVABLE – SANDY (CONTINUED)

The District entered into a separate agreement with Sandy City for the District to purchase water rights in the Ontario Drain Tunnel project. The rights are owned by the District and were purchased using a portion of the Series 2005 water revenue bond proceeds. As part of the agreement, Sandy City will pay special assessments to cover the portion of the bond payments corresponding to the purchase. The expected flow of cash from these assessments is shown below:

	<u>Assessment Payments</u>
2007	\$ 691,467
2008	694,047
2009	734,566
2010	833,031
2011	834,892
2012-2016	4,950,789
2017-2021	5,095,695
2022-2026	5,148,872
2027-2031	<u>5,423,175</u>
	<u>\$ 24,406,534</u>

NOTE 8 - RETIREMENT PLANS

Plan Description – The District contributes to the Local Government Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (“URS”). URS provides retirement benefits, annual cost of living allowances and death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State legislature.

URS is established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (“Chapter 49”) as amended, which also establishes the Utah State Retirement Office (“Office”) for the administration of URS and Plans. Chapter 49 places URS, the Office, and related plans and programs under direction of the Utah State Retirement Board (“Board”) whose members are appointed by the Governor.

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 8 - RETIREMENT PLANS (CONTINUED)

Plan Description (continued)

URS issues a publicly available financial report that includes financial statements and required supplementary information for URS and Plans. A copy of the report may be obtained by writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, UT 84012 or by calling 1-800-365-8772.

The District offers its full-time employees participation in a defined contribution plan created in accordance with Internal Revenue Code Section 401(k) (the "401(k) Plan"). The 401(k) Plan is administered by URS. Employees may contribute from 1% to 100% of their annual salary up to a maximum of \$15,000 and \$14,000 for 2006 and 2005, respectively. Through May 1, 1998, the District contributed 1.18% of the covered payroll of employees who also participate in the noncontributory retirement plan. After May 1, 1998, the District contributed 50% of the first 6% contributed by the employee, up to a maximum of 3% of the covered payroll of employees who also participate in the noncontributory retirement plan. During 2006 and 2005, all participants in the 401(k) Plan also participated in the noncontributory defined benefit plan of the system. The District is not legally obligated to contribute and any contribution made is at the discretion of the Board of Trustees. All employee and District contributions are fully vested at all times.

Contributions made by employees to the 401(k) Plan were \$153,536, \$144,190 and \$130,161 for the years ended June 30, 2006, 2005, and 2004, respectively. Contributions made by the District to the 401(k) Plan were \$178,098, \$226,188 and \$175,100 for the years ended June 30, 2006, 2005, and 2004, respectively.

Funding Policy – The District was required to contribute 11.09% and 11.09% for the years ended June 30, 2006 and 2005, respectively, of annual covered salary to the Local Government Noncontributory Retirement System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District contributions to the Local Government Noncontributory Retirement System for the years ended June 30, 2006, 2005, and 2004 were \$314,856, \$302,743 and \$247,203, respectively. The contributions were equal to the required contributions for each year.

Loans or Notes between the District and the Retirement Systems – No securities, loans, or notes of the District are included in the assets of the Utah Retirement Systems.

WISAN, SMITH, RACKER & PRESCOTT^{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy

We have audited the basic accompanying financial statements of the Metropolitan Water District of Salt Lake & Sandy (the District), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Metropolitan Water District of Salt Lake & Sandy in a separate letter dated November 9, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
November 9, 2006

Wisan Smith Racker & Prescott, LLP

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

METROPOLITAN WATER DISTRICT OF SALT LAKE & SANDY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 9 - DEFERRED COMPENSATION PLANS

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the 457 Plan). The 457 Plan, administered by the Utah Retirement Systems and available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency.

Contributions made by employees to the 457 plan were \$37,017 and \$32,050 for the years ended June 30, 2006 and 2005, respectively. Contributions made by the District to the 457 plan were \$0 and \$2,340 for the years ended June 30, 2006 and 2005, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The District is contingently liable for an amount equal to 35% of its direct liability on the original contract with the Association for costs incurred on the Deer Creek Division of the Provo River Project if other subscribers default. The maximum contingent liability amounted to approximately \$2,461,830 at June 30, 2006 and 2005.

There are pending lawsuits in which the District is involved arising from the normal course of business. Management does not expect potential claims resulting from such litigation to be significant to the District.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

In 2004 and 2005, management's policy was to accrue for employee sick leave. Management reviewed the requirements of the sick leave policy and concluded that an accrual was not necessary. Therefore, the sick leave accrual for prior periods was eliminated from the financial statements. The restatement decreased accrued expenses as previously reported as of June 30, 2005 and increased retained earnings for the year ended June 30, 2004 by \$654,292. Eliminating the accrual for sick leave reduced costs included in general and administrative expenses by \$72,368 for the year ended June 30, 2005.

WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITOR ON STATE OF UTAH LEGAL COMPLIANCE

Board of Trustees
Metropolitan Water District of Salt Lake & Sandy

We have audited the basic financial statements of the Metropolitan Water District of Salt Lake & Sandy (the District), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Issues

The District did not receive any major or non major State grants during the year ended June 30, 2006.

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

Wisan Smith Racker & Prescott, LLP

Salt Lake City, Utah
November 9, 2006

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

WISAN, SMITH, RACKER & PRESCOTT, LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

To Management of Metropolitan Water District of Salt Lake & Sandy:

In planning and performing our audit of the financial statements of Metropolitan Water District of Salt Lake & Sandy (The District) for the year ended June 30, 2006, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 9, 2006 on the financial statements of the District. Also, this letter does not affect our report dated November 9, 2006, on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit in accordance with *Governmental Auditing Standards* or our report dated November 9, 2006 on Compliance with the State of Utah Legal Compliance Guidelines.

Comment

Due to the change in the Controller position, proper cutoff of cash was not performed in the system prior to the commencement of the audit.

Recommendation: Appropriate bank reconciliations are prepared for all accounts to ensure that final reconciled balances agree to the General Ledger.

Management Response: Agree. The change will be implemented, and the staff at Metro will work with our Solomon support group to find a way to close the year, but have the ability to make journal entries after the period is closed through a 13th month entry.

Comment

Sick leave was being fully accrued in accordance with a previous policy, which has been modified. According to the new policy there are several different criteria for different employees based upon their tenure.

Recommendation: Identify those employees for which sick leave is truly a liability and record the amount of the liability and corresponding expense. Based upon discussion with management this liability is not material for the current year.

Management Response: Agree. Staff will work with HR and the Controller to determine the liability each year based on length of services and the likelihood of employees retiring.

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO

Comment

Due to the transition in the Controller position, several accounts were not reconciled and closed prior to the audit.

Recommendation: Ensure that, prior to the beginning of the audit, all account balances can be justified and supported. All accruals need to be made with all liabilities and receivables being recognized and recorded.

Management Response: Agree. The audit findings have been discussed, and there should not be a problem next year with this issue.

Comment

Expenses incurred for fixed assets were not properly categorized and tracked prior to the commencement of the audit. Balances did not flow from one year to the next.

Recommendation: Someone who is familiar with all projects should work with the Controller to ensure that all items are being tracked properly. When a project is fully functioning according to The District's policies and procedures, it should be transferred to the appropriate depreciable category.

Management Response: Agree. The change will be implemented; in addition, the Controller and General Manager will meet with the Finance Committee to ensure the Master Project is being depreciated properly.

Comment

Due to the transition in the Controller position not all adjusting entries from the prior year's audit were made prior to the commencement of the audit.

Recommendation: All entries must be posted timely to ensure that the general ledger balances match the account balances as shown on the audit report.

Management Response: Agree. The change will be implemented.

This report is intended solely for the information and use of the Board of Trustees of Metropolitan Water District of Salt Lake & Sandy, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management and would be pleased to discuss them in further detail at your convenience. We appreciate those we worked with during the audit and found them very responsive and helpful.

Wisan Smith Racker & Prescott

Wisan, Smith, Racker, & Prescott, LLP